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UNCLAS HARARE 000625

SIPDIS

SENSITIVE

STATE FOR AF/S
NSC FOR SENIOR AFRICA DIRECTOR JFRAZER
USDOC FOR 2037 DIEMOND
PASS USTR ROSA WHITAKER
TREASURY FOR ED BARBER AND C WILKINSON
STATE PASS USAID FOR MARJORIE COPSON

1E. O. 12958: N/A

TAGS: EAGR ECON EINV ETRD ZI

SUBJECT: Tractor Sales Nearly Dead

Sensitive but unclassified. Not for Internet posting.

11. (SBU) Summary: Zimbabwe's largest tractor dealer says sales last year were off 98 percent from the late-1990s, a measure of commercial agriculture's staggering nosedive. Meanwhile, the GOZ is assisting an indigenous firm to import cheap Renault tractors from India by making foreign exchange available at the official rate of Z\$55:US\$1. End summary.

5-Fold Price Increase

12. (SBU) Bain Group Marketing Manager P.D. Hickman recounted annual domestic sales of 1,500 tractors in the late-1990s. Last year the sector sold just 40 units. Bain Group both imports and manufactures tractors, having maintained its approximate 50 percent market share through the present turmoil. In a case of mega-sticker-shock, the price of a top-of-the-line 300-horsepower tractor has risen from Z\$ 7 to 35 million in a little over a year. For farmers who must sell at artificially-low controlled prices, Hickman said it is no longer possible to recoup investments in new equipment. At the same time, white farmers dispossessed through the GOZ's fast-track land reform have flooded the market with used tractors at bargain-basement prices. (The GOZ forbids the export of second-hand tractors.) The GOZ's elimination of a 5 percent duty on imported agricultural equipment in the 2003 budget has not offset the hefty devaluation. The GOZ is trying to address this crisis by enabling politically-connected indigenous firm Tanaka Power to access foreign currency at official rates in order to sell India-made Renault tractors for less than 10 percent of the market cost. It is not clear, however, how much foreign exchange the cash-strapped GOZ will be able to make available to Tanaka Power.

13. (SBU) Given its slow sales, Bain Group has fired half its 620 workers, indirect employment casualties of land reform. However, the company is still trying to cope by exporting more and altering its product mix for recently resettled farmers. Bain Group is selling increasing amounts of ox-drawn implements to large-scale (A2) settlers. But opportunities are limited since Hickman estimates only a small number of A2 farmers are actually tilling land and planting crops. (Representatives of the Indigenous Commercial Farmers Union, whose ranks have swelled with "new" farmers, tell us they estimate only 15 percent of present A2 beneficiaries will prove viable.) At the same time, white Zimbabwean farmers starting over in Zambia, Mozambique and Malawi are placing fresh orders for Bain Group tractors and implements. Hickman said this brand loyalty of emigrant Zimbabwean farmers is helping the firm expand in these markets.

Comment

14. (SBU) The fall in annual tractor sales epitomizes commercial agriculture's decline. While most small-scale resettled (A1) farmers could one day reach subsistence levels in rainy years, there is no sign yet that new commercial (A2) farmers will produce even a fraction of their predecessors' output. Zimbabwe's loss in employment and export revenue is enormous.

Sullivan